



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

JUDI E. THOMAS
CHIEF DEPUTY

ADDRESS ALL CORRESPONDENCE TO:
COUNTYWIDE CONTRACT MONITORING DIV.
350 S. FIGUEROA ST., 8TH FLOOR
LOS ANGELES, CA 90071

July 10, 2012

TO: Audit Committee

FROM: Don Chadwick, Chief 
Countywide Contract Monitoring Division

SUBJECT: **REVISING THE LIVING WAGE RATE CALCULATION METHODOLOGY**

As part of the County's Living Wage Annual Report, the Auditor-Controller calculates an updated Living Wage. The updated Living Wage is intended for informational purposes only, and is not a recommendation or a request to adjust the Board-approved Living Wage.

When calculating the updated Living Wage, we follow the same methodology that the County used in 1999 when the Living Wage Program was implemented. Specifically, the Living Wage is based on the minimum gross earnings an individual, living in a household of three, would need to earn to become ineligible for public assistance from the State.

Living Wage Rate Methodology Review

Our 2011 Living Wage update noted that the Living Wage rate for individuals who received employer-provided health insurance decreased from \$9.64 per hour to \$8.01 per hour. The decrease was the result of the State reducing the minimum gross earnings that an individual, living in a household of three, would need to earn to become ineligible for public assistance from \$1,614 per month to \$1,388 per month. During this same period, the cost of living in Los Angeles County increased.

Based on the results of our 2011 Living Wage update, we contacted 21 jurisdictions in the State that have a Living Wage Program to evaluate the methodologies they use to adjust their Living Wage. We noted that 19 (90%) of the 21 jurisdictions adjust their Living Wage based on changes in the Consumer Price Index (CPI). The remaining two jurisdictions adjust their living wage based on changes in the amounts paid to members of their retirement systems.

To determine the reasonableness of using the CPI to adjust the County's Living Wage, we compared the current Living Wage, approved by the Board in 2007, with a CPI-adjusted Living Wage, a Living Wage adjusted using the 1999 methodology, and the average Living Wage for all 21 jurisdictions. The following chart summarizes the Living Wage comparison:

Description	Current Living Wage Rate	Living Wage Rate Updated Using CPI	Living Wage Rate Updated Using 1999 Methodology	Average Living Wage Rate for All 21 Jurisdictions
Hourly rate with insurance provided by contractor	\$9.64	\$11.17	\$8.01	\$11.40
Cost of health insurance	\$2.20	\$2.56	\$4.24	\$1.75
Hourly rate without insurance provided by the contractor	\$11.84	\$13.73	\$12.25	\$13.15

Living Wage Updates

Using the CPI to adjust the Living Wage will result in a rate that more closely aligns with changes in the cost of living in Los Angeles County, and is consistent with the methodology used by 90% of the Living Wage Programs reviewed in the State.

In March 2009, we reported to the Audit Committee that the estimated cost of the Living Wage Program for Fiscal Year (FY) 2008-09 was approximately \$15 million (Attachment I). Using the Board-adopted Living Wage Rate, the estimated cost of the Living Wage Program for FY 2011-12 is approximately \$25.6 million. If the Board were to adopt the 2011 CPI-adjusted Living Wage Rate, the FY 2011-12 estimated cost would increase to approximately \$29.6 million.

Beginning in 2012, unless otherwise directed, we plan to use changes in the CPI to calculate changes to the County's Living Wage as part of our annual Living Wage update. Please call me at (213) 253-0301, if you need additional information.

DC

Attachment

c: William T Fujioka, Chief Executive Officer
Tom Tindall, Director, Internal Services Department
Gail Farber, Director, Public Works
John F. Krattli, County Counsel



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2706
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

ADDRESS ALL CORRESPONDENCE TO:
COUNTYWIDE CONTRACT MONITORING DIV.
350 S. FIGUEROA ST., 8TH FLOOR
LOS ANGELES, CA 90071

March 20, 2009

TO: Audit Committee

FROM: Don Chadwick, Division Chief *Don Chadwick*
Countywide Contract Monitoring Division

SUBJECT: **ESTIMATED LIVING WAGE PROGRAM COST FOR FISCAL YEAR
2008-09**

We received a request from the Fourth District to calculate the cost of the Living Wage Program (Program) for Fiscal Year (FY) 2008-09. Using eCAPS contract expenditure data through March 18, 2009, a list of current Proposition A contracts from Office of Affirmative Action Compliance, and 43.4 percent ¹ salary and employee benefit ratio to contract expenditures, we arrived an estimated cost of the Program of \$15 million to date.

It is important to note that the actual cost related to the Program may be less for FY 2008-09 due to the following:

- The estimate assumes that contractors would have paid minimum wage to their employees when, in fact, several may have paid more; and
- Some of the contract cost increases may have been related to other factors.

Additionally, the Program cost may be offset by some amount due to reduced costs to our health services system, as Living Wage contractors provided health insurance or wages allowing employees to purchase their own. However, we have no reliable way of estimating this offsetting factor.

Please call me if you have any questions at (213) 253-0301.

DC

c: Wendy L. Watanabe, Auditor-Controller
Maria M. Oms, Assistant Auditor-Controller

¹ Source of Percentage – Chief Executive Office Living Wage Contractor Survey in June 2004.